

Central Intelligence Agency



Washington, D. C. 20505

## DIRECTORATE OF INTELLIGENCE

5 July 1984

Hong Kong: Approaching the September Deadline [redacted]

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## Summary

Britain and China anticipate reaching an agreement on Hong Kong's future by September. To date, Beijing has not indicated a willingness to accept the kind of detailed agreement guaranteeing Hong Kong's autonomy that many of the colony's spokesmen insist is necessary to maintain confidence. Although London could still make an eleventh hour attempt to get a better deal, the British right now appear willing to settle for an agreement that would be primarily based on China's plan for incorporating Hong Kong as a special administrative region.

Consequently, we expect anxiety to increase when the extent of Britain's concessions to China

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\* Beijing has proposed that after 1997, Hong Kong will become an autonomous, self-administered territory of China. China has promised to maintain Hong Kong's existing way of life, but has provided few specific details. For example, the only description the Chinese have given the British regarding Hong Kong's post-1997 administration is that the local government will be composed of executive, legislative, and judicial branches. [redacted]

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This memorandum was prepared by [redacted] China Division, Office of East Asian Analysis. It was coordinated with OCR and EURA. Comments and questions are welcome and should be addressed to Chief, OEA/CH/Foreign Affairs Branch, [redacted]

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become known. The British Parliament's consideration of the agreement will evoke petitions and debates in Hong Kong that are likely to raise political tension in the colony. [REDACTED]

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We see the possibility of serious instability increasing. Violence could break out, but other forms of instability, such as financial decline and increased emigration seem more likely. Signs of decline in Hong Kong's social order are already apparent, including a growth in corruption. [REDACTED]

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### Hong Kong: Approaching the September Deadline

It appears increasingly likely that China and the United Kingdom will reach an agreement on Hong Kong's future this year, probably by Beijing's September deadline. [REDACTED]

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[REDACTED] the agreement probably will be fairly general and based on China's 12-point plan for Hong Kong, which pledges to maintain the territory's existing social and economic system for 50 years after China regains sovereignty in 1997. The two sides have exchanged draft agreements and established working groups in mid-June to meet continuously to work out the arrangements. [REDACTED]

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The British realize they have little leverage with the Chinese and are anxious to have a face-saving agreement to submit to Parliament when it reconvenes this fall. London has bowed to Chinese pressure and conceded several key points:

- Late last year the British accepted China's sovereignty and administration in Hong Kong, and agreed to negotiate on the basis of China's plan for the territory.
- During his visit to Beijing in April, Foreign Secretary Howe agreed to a timetable in accord with China's deadline, which calls for a draft agreement to be reached by September, a debate in the British Parliament in autumn, and signing by year end.
- In late May the British accepted Beijing's proposal to establish a joint liaison group, after an agreement is signed, to oversee Hong Kong developments prior to 1997. [REDACTED]

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\* During his September 1982 discussions with Prime Minister Thatcher in Beijing, Deng Xiaoping set a two year limit on the talks to keep the British from dragging their feet. [REDACTED]

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The two sides still remain far apart on the contents of an agreement and it is possible that the talks would be extended beyond September. [REDACTED]

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The British want a detailed accord that commits China to maintain Hong Kong's existing social and economic structure, spells out how Hong Kong will be administered after 1997, and guarantees the rights of Hong Kong's residents. But Beijing does not want to tie its hands regarding future administration of the territory and still wants a much more general agreement. Because China is unsure how it will manage Hong Kong and is loathe to accept commitments that would curb its sovereign rights, Beijing has sustained a hard line approach. In late May, for example, Deng Xiaoping disregarded British advice and publicly declared that China would station troops in Hong Kong after 1997. [REDACTED]

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Although Prime Minister Thatcher could decide to make an eleventh hour attempt to get a better deal, at present the UK appears likely to accept China's terms. Officials in the Foreign Office, led by former British Ambassador to Beijing Percy Craddock, have successfully advocated a nonconfrontational approach, and Prime Minister Thatcher has gone along. Since Howe's visit in April, the British no longer seem anxious to negotiate for as long as it takes to get the assurances and details they want in an agreement. Instead, they now appear to be trying to get the best deal possible by the September deadline. [REDACTED]

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### Hong Kong's Growing Apprehension

Many Hong Kong residents are alarmed by the prospect of a Chinese takeover and increasingly frustrated by their inability to have any input regarding their fate with either London or Beijing. The numerous refugees from the PRC and their families living in Hong Kong are particularly suspicious of China's intentions. Local anxiety has also been high because most residents are unable to emigrate. Part of these concerns center on Hong Kong's vulnerability to political change or infighting in Beijing. Deng Xiaoping strongly reinforced these concerns in late May when he issued an unprecedented public rebuke of former ministers Huang Hua and Geng Biao for differing with him on the question of Chinese troops being stationed in Hong Kong. [REDACTED]

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Hong Kong's residents have become increasingly apprehensive that Britain will not insist on the assurances they seek. At the time of Prime Minister Thatcher's visit to Beijing and Hong Kong in September 1982, many had hoped that the UK would be able to retain a formal role in Hong Kong after 1997, perhaps by renewing the New Territories lease. After China rebuffed this option, there was hope that Britain would continue to play an informal role after 1997. The stalemate in the talks over this and other issues last fall caused serious instability. The stock market fell dramatically and the dollar dropped as far as 9.6 to the US

dollar before the government fixed the rate at 7.8 to the US dollar. Foreign Secretary Howe's 20 April announcement of British withdrawal in 1997 and several press leaks revealing British acquiescence to Chinese demands have undercut the expectation that Britain would insist on guarantees concerning Hong Kong's future autonomy. [redacted]

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Only after the Howe visit did Hong Kong's residents begin to strongly express their frustration over having no say in the deliberations. Aware that the talks are nearing an end, local groups in the colony have begun to speak out with unprecedented frankness. [redacted]

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Most notably, unofficial members of Hong Kong's Executive and Legislative Councils, referred to as Umelco, recently sent lobbying missions to both London and Beijing to press for better terms in the agreement. During their May trip to London, Umelco raised such possibilities as: Parliament withholding ratification of an agreement until the details of a basic law to govern Hong Kong after 1997 are known, Britain insisting upon retaining some residual status in Hong Kong after 1997, and the UK making resettlement arrangements for those who wish to emigrate. [redacted]

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While in Beijing, during June, Umelco tried to convince the Chinese leadership how worried Hong Kong is about its future. They specifically pointed out Hong Kong's concerns that China's policies on Hong Kong may be altered by future leaders. [redacted]

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But in both London and Beijing Umelco was rebuffed. Several members of the British Parliament criticized Umelco for being unhelpful during a Parliamentary debate on Hong Kong on 16 May. Even Hong Kong's former Governor, Lord MacLehose, termed their visit to London as ill-timed and ill-conceived. [redacted]

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Deng Xiaoping bluntly reminded the Umelco delegation that China had already decided its policies for the territory. China subsequently tried to soften the negative reaction in Hong Kong by replaying Deng's assurances that Hong Kong will remain autonomous. [redacted]

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Additional local appeals to both London and Beijing for better terms are likely, especially this fall, but Hong Kong probably will continue to receive little sympathy from either capital. We believe the British--Parliament in particular--are anxious to extricate themselves from the Hong Kong problem. The UK wants to avoid a panic in Hong Kong, but the almost entirely ethnic Chinese population of Hong Kong has few strong supporters in London. Likewise, Beijing does not welcome criticism of its plans to run Hong Kong as a special autonomous region of China. Nor will Beijing appreciate Britain's plans to soon give Hong Kong more democracy. China fears that if democracy is allowed to take root in Hong Kong, strong opposition elements would develop greatly complicating its reversion efforts. Hong Kong meanwhile remains virtually devoid of any cohesive organization around

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which the citizens can rally. The British colonial legacy and Hong Kong's traditional apathetic approach toward politics have left the local population with little leverage. [REDACTED]

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### Signs of Decline

In our judgment growing pessimism during the past few months has contributed to several potentially destabilizing developments in Hong Kong:

- The US Consulate in Hong Kong has reported that business and professional leaders are taking an increasingly active interest in emigrating. The 28 March announcement that Jardine Matheson, one of Hong Kong's oldest and largest companies, was moving its headquarters to Bermuda, reinforced this trend.
- Hong Kong's civil service is becoming more demoralized. Senior and middle level officials are showing an increased inclination to leave. The third ranking individual in Hong Kong's Immigration Department emigrated to Canada in April.
- The US Consulate has also reported that corruption in the government and the private sector is on the increase.
- Antiforeign sentiments are growing, according to long-time expatriate residents of the colony.



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### Prospects for Instability this Autumn

Hong Kong's strong manufacturing sector presently is enjoying a booming export market--one encouraging indicator that a September agreement could be less traumatic than we presently perceive. But much would depend on China showing new sensitivity to the confidence problem, as it hammers out the details of a final agreement. At present, however, Chinese leaders are continuing to exude confidence about their ability to manage Hong Kong and are loathe to accept restrictions on what they see as a major victory in restoring China's sovereign rights. Though low level officials and media comment offer vague assurances about Chinese intentions, Deng Xiaoping continues to press a hard line to gain maximum concessions from the British and to silence potential opposition in Hong Kong. [REDACTED]

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It now appears probable, therefore, that the agreement this fall will have an unsettling effect on Hong Kong, particularly

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once the extent of Britain's acquiescence to China's demands becomes apparent during the subsequent debate in the British Parliament. We believe that the possibility of serious unrest occurring in Hong Kong this fall cannot be ruled out. Violence could be instigated by the triads (Hong Kong's criminal gangs), which took advantage of a peaceful demonstration last January during a taxi strike to spark incidents and loot in Hong Kong's main shopping district. Protest rallies and demonstrations that are likely to occur in Hong Kong during the Parliamentary debate this fall could get out of hand given the frustrations involved. [REDACTED]

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We believe other forms of instability are more likely, however. New episodes of rapid financial declines, capital flight, and increased emigration could occur. Hong Kong proved last fall that it can talk itself into a near economic panic. The stock market in particular is known for its volatility and is capable of dropping drastically. The Hong Kong dollar, currently pegged to the US dollar, is also vulnerable. If those holding Hong Kong dollars began to sell them off rapidly for other currencies, interest rates probably would rise quickly, forcing the Hong Kong government to consider another devaluation. British efforts to calm a panic might be fruitless. [REDACTED]

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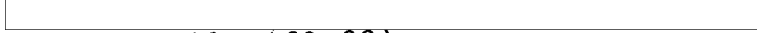
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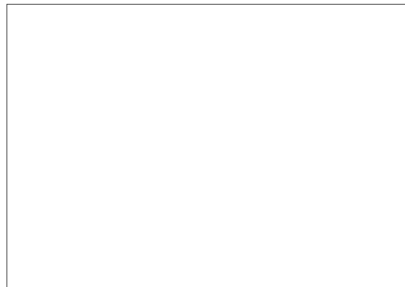
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